

MINUTES OF THE  
JOINT CAPITAL FACILITIES & GOVERNMENT OPERATIONS  
APPROPRIATIONS SUBCOMMITTEE MEETING  
MONDAY, JANUARY 12, 2009, 8:00 A.M.  
Room 450 House Building, State Capitol Complex

Morning

Members Present.: Sen. Wayne L. Niederhauser, Co-Chair  
Rep. Stephen D. Clark, Co-Chair  
Sen. Curtis S. Bramble  
Rep. Fred R. Hunsaker  
Rep. Laura Black  
Rep. Gage Froerer  
Rep. Brad L. Dee  
Rep. Janice M. Fisher  
Rep. Craig A. Frank  
Rep. Stephen E. Sandstrom

Members Excused: Sen. Brent H. Goodfellow

Members Absent:

Afternoon

Sen. Wayne L. Niederhauser, Co-Chair  
Rep. Stephen D. Clark, Co-Chair  
Sen. Curtis S. Bramble  
Rep. Fred R. Hunsaker  
Rep. Laura Black  
Rep. Janice M. Fisher  
Rep. Craig A. Frank  
Rep. Stephen E. Sandstrom

Rep. Gage Froerer  
Rep. Brad L. Dee

Staff Present: Steve Allred, Fiscal Analyst  
Richard Amon, Fiscal Analyst  
Allison Volk, Committee Secretary

Public Speakers Present:

Richard Ellis, State Treasurer  
Kim Hood, Executive Director, DAS  
Ken Hansen, Director, DAS, Admin. Rules  
John Reidhead, Director, DAS, Finance  
Kent Beers, Director, DAS, Purchasing  
Gregg Buxton, Director, DAS, DFCM  
Sal Petilos, DAS, Deputy Director  
John Bennett, Exec. Dir., Quality Growth Commission

Patrice Smith Mansfield, Director, Archives  
Steve Fletcher, Executive Director, DTS  
Jeannie Watanabe, Manager, DTS, AGRC  
David Hart, Executive Director, CPB  
Jeff Herring, Executive Director, DHRM  
Bob Thompson, Administrator, CSRB  
Kurt Baxter, Director, DFCM, Construction Mgmt.  
Margaret Chambers, Director, Fleet & Surplus Prop.

A list of visitors and a copy of handouts are filed with the minutes.

Co-Chair Niederhauser called the meeting to order at 9:15 a.m.

1. Approval of Minutes

**MOTION:** Representative Fred Hunsaker moved to approve the minutes of the September 25, 2008, meeting. The motion passed unanimously with Rep. Dee and Sen. Goodfellow absent at the time of the voting.

2. Budget Overview

Sen. Niederhauser stated that our economy over the last several years was a false economy based on questionable lending practices on a national basis. This created a real estate bubble in some states (mainly California, Nevada, Arizona and Florida), which eventually created the current economic crisis. Because Utah's budget was based on this false economy, we are going to have to have a more realistic budget for 2010 which

means a reduction in the 2009 budget.

Steve Allred and Rich Amon reviewed "Budgeting for Appropriations Subcommittees" as a tool and reference for the subcommittee. All briefs that will be presented are recommendations from the Fiscal Analyst Office and are subject to change. Also, they assume current tax law and do not divert tax earmarks and/or increase or decrease taxes. The "Budgeting for Appropriations Subcommittees" PowerPoint presentation reviewed timing of the fiscal year including base and supplemental budgets, revenue sources, target revenue history, current revenue shortfall and FY09 estimates over time, appropriations, new spending pressure, budget deficit and target, how much we have to reduce the budget, how it is reduced, budget process, subcommittee meetings, subcommittee documents, recommendation's & constraints which balance to the 7.5% and 15% targets set by EAC. These are intended as a place to start discussion and assume current tax law but do not include salary decreases or benefit changes and do not tap rainy day fund or bond proceeds.

Mr. Amon also reviewed the main spreadsheet which is a blueprint to help guide the committee as to where the budgets are at in this specific subcommittee. The first section is the history. The second section is the FY09 budget. The third section is the FY10 base budget. The fourth section refers to a full time equivalent (FTE), which is the personnel in the subcommittee.

### 3. Presentation on Bonding

Richard Ellis, State Treasurer addressed the committee about bonding. Utah's triple A bond rating and relatively low outstanding bonds make it an attractive prospect for bonds. Various underwriters from large underwriting institutions have estimated that Utah could easily access the bond market for up to \$400,000,000 to \$600,000,000 in bonds.

Rep. Hunsaker asked if the state of Washington sold bonds at 4.5% for 25 years, what would Utah anticipate if we were ready to go to the market today?

Mr. Ellis, replied that we could expect close to the same rate because bond rates are so compressed right now but we think we would have a stronger sell then they have.

Rep. Clark recalled that we have two bond issues on buildings that we are still paying on. He asked what rates are those bonds at?

Mr. Ellis stated those bonds are closer to 4%.

Rep. Clark asked if Mr. Ellis would recommend that the committee consider bonding to relieve some financial problems and to continue funding some of the current buildings?

Mr. Ellis stated that there is an opportunity to alleviate the financial pressure through use of bonds and would make sense to access a bond market.

Rep. Hunsaker asked if Richard Ellis would address our bonding capability both statutorily and constitutionally.

Mr. Ellis the said the state has two limits. The constitutional limit is 1.5% of the assessed value throughout the state and statutory states 45% of an appropriation amount. Utah has capacity left in both areas.

Sen. Niederhauser asked if we are paying more for bonds than in the past?

Mr. Ellis, stated typically we will see municipal bonds trade at 80-90% of treasury bond rates. Right now they are trading at 120-200% treasury bond rates. From an investor point of view, this makes municipal bonds very attractive.

Sen. Niederhauser said since the commercial development market drop we have seen the commodity markets

decrease substantially. Therefore, construction costs are coming down in a big way. It makes sense to take advantage of lower construction costs with some bonding ability as a stimulus and for taking care of some anticipated needs. He then asked what can we do to make sure that our Triple A rate is not compromised?

Mr. Ellis, said the key thing is maintaining the structural integrity of the state budget. We need to make sure we bring balance to our revenues and expenditures. The rating agencies want to see a plan showing we can get that budget balanced relatively soon. Also, we need to make sure not to use our rainy day fund too soon.

Sen. Niederhauser, clarified that structural integrity of the state budget means ongoing expenditures are being paid by ongoing revenue and one time expenditure are being paid by one time revenue.

#### 4. DAS Administrative Rules Brief

Mr. Amon handed out the brief dealing with the Administrative Rules. The Administrative rule establishes procedures for administrative rule making, records, administrative rules, and make administrative rules available to the public. They also administer the Utah Administrative Rule Making Act and ensure state agencies comply with filing publication and hearing procedures.

Mr. Amon explained the way the briefs work is that there are three graphs. The first graph shows the budget past and present. The second graph shows the FTE History. The third graph shows where state funds are compared to other funding sources. The briefs also have some charts that are more detailed (including line item accounts) of the budget and budget cuts.

Rep. Clark, clarified that the chart shows a cut of one FTE.

Mr. Amon responded that in FY09 there are no cuts but in FY10 there would be a cut of one FTE.

Rep. Clark, asked if this is an actual cut where we would have to release somebody or is it a position that hasn't been filled?

Ken Hansen, Director of Administrative Rules, stated yes this would be cutting a person on staff.

Rep. Fisher, asked if that is a person who has just come on recently or someone who has been there for a long time?

Mr. Hansen, stated that FTE had been on staff for eight years.

Mr. Amon outlined the recommendation for the Administrative Rules reductions. The analyst recommends a 7.5% target for FY09 of \$29,800 which would be a one time reduction and would come from current expenses and data processing. The 15% target for FY10 would be \$59,700 from current expenses, data processing and personnel.

Mr. Hansen, declared that his concern with this level of reduction is that it would greatly hinder their primary purpose which is communicating to the public on what the government is doing.

Rep. Hunsaker, asked if there was a better way to cut back without losing an FTE?

Mr. Hansen, replied that to get to the 15% level it means losing an FTE. They went over the numbers and couldn't see another way to get to 15%.

Mr. Amon wanted to emphasize that when trying to meet the targets set by the Executive Appropriations they worked with each department and their ideas and tried to take that into account with the recommendations.

Rep. Fisher, asked how much of a cut in salary would the other three persons have to take to keep that fourth

person on staff?

Kim Hood, Executive Director, DAS/EDO, replied as we moved through budget cutting scenarios, we tried to cut everywhere else but jobs. So we did not look at income reductions.

Mr. Hansen, said he didn't have the numbers in front of him but that it was about a \$60,000 total reduction. He expressed concern that they would lose the others because of the significant reduction in their pay.

#### 5. DAS DFCM Administration Brief

Mr. Amon discussed that the Division of Facilities Construction and Management (DFCM) is the building manager for all state owned facilities. The analyst's recommendation for the 7.5% reduction for FY09 is \$236,300 which would include some money out of personnel expenses, current expenses, state travel and data processing. The 15% reduction for FY10 would be \$472,500 which would come from current expenses, data processing and three full time positions.

Rep. Clark, asked if the three FTEs' are filled positions?

Gregg Buxton, Director, DAS, DFCM, said some are filled and some are in transition and at this point we would not have to lay anybody off.

Ms. Hood, explained that they offered an incentive for retiring in anticipation of these reductions and that is why we see this lack of positions filled. She emphasized the loss of a project manager affects the private sector because one project manager would oversee 15-20 different projects that would employ many subcontractors that have employees, vendors, etc. It is a trickle through the economy, more so in DFCM then any other division the impact they do directly impacts the private sector.

Rep. Clark, asked if it would be possible to retain project managers on a contract basis and if so could we look at doing it on a widespread basis?

Mr. Buxton, stated it has been done to an extent but it is not always easy to find contractors reliable enough to do that.

Sen. Niederhauser, explained that by statute we are required to put 1.1% of our building costs away for ongoing maintenance and in times of budget crisis can go down to .9% which we did briefly in September.

Mr. Allred, explained that further cuts would reduce capital improvements below the statutory limit of .9% which would mandate change to the statute before FY09 cut can be made. In FY10 we don't need to make that change because you haven't authorized any Capitol developments.

#### 6. DAS Executive Director's Office

Mr. Amon explained The Executive Director's Office (EDO) provides financial management, strategic planning, organizational development, internal auditing, and public relations for the Department of Administrative Services. The analyst recommends a 7.5% one-time reduction in FY09 of \$73,900 for in personnel expenses, current expenses and data processing. In FY10 the analyst recommends ongoing 15% budget reductions of \$131,600 from current expenses, data processing and personnel.

Rep. Forerer, asked if he could get a brief explanation on the Parental Defense Program and how the funds are used?

Sal Petilos, Deputy Director and Program Manager for the Child Warfare Parental Defense Department Office explained that it is contracted out and the contract requires vendors to provide training for child welfare parental defenders.

7. DAS Division of Finance Administration

Mr. Amon reviewed the Division of Finance brief. The Division of Finance Administration is the State of Utah's central financial accounting office. The division provides direction regarding fiscal matters, financial systems, processes and information. The analyst recommends a one time reduction of 7.5% in FY09 of \$518,200 in personnel expenses, current expenses and data processing. In FY10 the analyst recommends ongoing 15% budget reduction of \$1,033,300 from data processing and personnel.

John Reidhead, Director, DAS Finances stated that they are doing everything they can to cut from other places in order to save jobs.

Rep. Clark, mentioned a possible outsourcing not only for Finance Administration but for all departments as a way to save money.

8. DAS Division of Finance Mandated

Mr. Amon explained that the Legislature funds programs that impact several agencies, solve problems that don't apply to any specific agency, or that pose a conflict of interest to agency management. For these programs, the Legislature directs the Division of Finance to administer payment as intended for each appropriation. The analyst recommends a one time reduction for FY09 of \$36,200 from the LeRay McAllister Fund. For FY10 the analyst recommends an ongoing budget reduction of \$72,400 in the LeRay McAllister Fund. Such a reduction will reduce the amount the Quality Growth Commission can grant to land conservation projects.

Rep. Frank, wanted to know the breakdown of the \$482,600 budget for Division of Finance mandated in regards to what is administrative and what goes to grants.

John Bennett, Executive Director, Quality Growth Community explained that \$82,600 went to administration the remaining \$400,000 went to grants.

9. Post Conviction Indigent Defense Fund

Mr. Amon reviewed the brief which states the UCA 78-35a-202 allows persons convicted of a capital crime and sentenced to death to challenge the conviction and have counsel appointed. If a defendant requests counsel and is determined by the court to be indigent, costs of counsel and other reasonable litigation expenses incurred in providing the representation must be paid from state funds by the Division of Finance. The analyst recommends a one time reduction for FY09 of 7.5% which is \$3,600 in current expenses. For FY10 the analyst recommends an ongoing budget reduction of 15% which is \$7,300 from current expenses.

10. Judicial Conduct Commission

Mr. Amon explained that the Judicial Conduct Commission is a quasi-independent agency that investigate and resolves complaints against Utah judges. The analyst recommends a 7.5% one time reduction of \$19,200 in current expenses in FY09. In FY10 the analyst recommends a 15% ongoing budget reduction of \$38,500.

11. DAS Purchasing and General Services

Mr. Amon stated that the division provides a centralized purchasing function for all state agencies. In FY09 the analyst recommends a 7.5% one time budget reduction of \$138,000 in personnel expenses and the replacement of \$66,000 in General Fund with dedicated credits from the Western States Contracting Alliance. In FY10 the analyst recommends a 15% reduction of \$256,000 with a replacement of General Fund with dedicated credit and from personnel.

Rep. Clark, asked if the three personnel cuts are positions already filled?

Kent Beers Director of Purchasing, the analyst for The Privatization Policy Board said it one position has not been filled the other two are filled positions.

Rep. Frank, asked why has this position not been filled?

Mr. Beers, stated that they attempted to fill the position but had no success.

Rep. Frank stated that he believes that the analyst position would save the state millions of dollars in efficiencies. He further explained that there are other places in the budget recommendations that are just cuts rather than dollar savers and maybe there are other ways to save money besides cuts.

12. DAS Division of State Archives

Mr. Amon explained the Utah State Archives is the repository for official records of the state and its political subdivisions. The division serves state government and the public by managing records created by the legislative, judicial and executive branches. For FY09 the analyst recommends a 7.5% one time budget reduction of \$190,300 in personnel, current expenses, travel, data processing and grant fund pass through. For FY10 the analyst recommends a 15% ongoing budget reduction of \$380,600 in current expenses, travel, data processing and personnel.

13. DTS Chief Information Officer

Mr. Amon stated that by statute, the Executive Director of the Department of Technology Services serves as the State's Chief Information Office (CIO). In addition to administering the Department, the CIO provides the policy direction and strategic vision for state information technology endeavors. For FY09 the analyst recommends a 7.5% one time budget reduction of \$47,700 in current expenses. For FY10 the analyst recommends a 15% ongoing budget reduction of \$94,100 in current expenses and personnel.

Steve Fletcher, Executive Director, DTS, said since it is such a small organization the only way to make cuts is to eliminate people and that they we would be going down from four people to three people.

14. DTS Integrated Technology

Mr. Amon described the Division of Integrated Technology as coordinating application development and project management for agencies and programs that share common needs. For FY09 the analyst recommends a 7.5% one time budget reduction of \$140,900 in personnel and current expenses. For FY10 the analyst recommends a 15% ongoing budget reduction of \$222,700 in current expenses and personnel.

Rep. Clark, asked what kind of impact would it have on AGRC?

Jeannie Watanabe, Manager, AGRC, stated that she is going to try to redirect the way they use people. We have the ability to contract out and have a dedicated credit to get additional contract work. We will work it out the best we can in order to maintain standards.

15. Capitol Preservation Board

Mr. Amon stated that the Capitol Preservation Board (CPB) manages all functions associated with Capitol Hill facilities and grounds. This includes maintenance operations, furnishings, occupancy, public usage and long-range master planning. For FY09 the analyst recommends a 7.5% one time budget reduction of \$289,400 in personnel, current expenses and Capitol Hill maintenance through DFCM. For FY10 the analyst recommends a 15% ongoing budget reduction of \$572,900 in current expenses, personnel, Capitol Hill maintenance through DFCM.

Sen. Niederhauser, asked what is the impact of deferred maintenance on the building?

David Hart, Executive Director, CPB, explained that it has a long term impact because motors and many other things in the central plant have to be maintained. By avoiding maintenance you are putting yourself at great risk and the potential of damaging the investment you have put in place.

**MOTION:** Representative Fred Hunsaker motioned to recess.  
The motion passed unanimously Sen. Goodfellow absent at the time of the voting.

16. Human Resource Management

Mr. Amon handed out the Human Resource Management brief. The Department of Human Resource Management (DHRM) is the central human resource office for the state's workforce. For FY09 the analyst recommends a 7.5% one time budget reduction of \$278,100 in personnel and data processing. For FY10 the analyst recommends a 15% ongoing budget reduction of \$571,500 in personnel and data processing.

Jeff Herring, Executive Director, DHRM, addressed the committee and expressed that any cuts would come from employee cuts and IT.

Rep. Clark asked if the four FTE's are real people?

Mr. Herring, replied all four FTE's are filled positions.

16. Career Service Review Board

Mr. Amon explained the Career Service Review Board (CSRB) administers the state's grievance and appeals process and is a quasi-judicial body that hears final administrative appeals. For FY09 the analyst recommends a 7.5% one time budget reduction of \$17,400 in personnel and current expenses. For FY10 the analyst recommends a 15% ongoing budget reduction of \$34,900 in current expenses and personnel.

Bob Thompson, Administrator, CSRB, commented to the committee that the 15% cut will be devastating to the board and that it would essentially cut his staff in half.

Rep. Hunsaker, asked how will these cuts affect his workload?

Mr. Thompson, speculated that with the statewide cuts, grievances will go up thus creating a heavier workload, making the job impossible by himself.

17. Debt Service

Mr. Amon described the Debt Service brief. The Debt Service is made up interest and principal due on the state's bonded indebtedness. The state uses long term debt to finance large capital expenditures. Under our current schedule, Utah will pay off one bond (1998A) on July 1, 2008 and another (2001B) on July 1, 2009. FY10 debt service on buildings will require \$500,000 less General Fund while the debt service on highways will require \$3,195,700 more Centennial Highway Fund and \$3,954,600 more County of the First Class funds. Any new bonding in FY10 will require additions to the debt service line item from the appropriate funding source. In regards to the non-lapsing balance, the Legislature decreased the non lapsing balance by \$12,000,000 in FY09 and replaced \$7,000,000 of General Fund with the non lapsing balance.

18. Capital Development

Mr. Allred handed out the brief Capital Developments. Capital developments include renovations or other projects costing \$2,500,000 or more, new facilities costing \$500,000 or more, or real property purchases needing an appropriation for financing. The legislature uses this line item to appropriate funds for construction of new capital development. The Legislature divides capital developments into two types: state-funded developments and other-funded developments. The analyst recommends a one time reduction in FY09 of

\$52,000,000 for the UDC 192-Bed. Pod/288-Bed Pod Design. In order for the Department of Corrections to meet its targeted cuts, it was considering the closure of one or two existing pods. Rather than close existing pods, the Analyst recommends discontinuing construction of new pods.

Kurt Baxter, Assistant Director, DFCM, clarified that pod 192/288 is both in a design phase but that bids are coming in on phase one next week. He explained that the first phase is about \$5,000,000 in construction. The second phase is about \$37,000,000. So we would need to know what to do about the first phase fairly soon.

#### 19. Capital Improvements

Mr. Allred introduced the Capitol improvements budget as projects which cost less than \$2,500,000 to improve existing facilities or less than \$500,000 to construct a new facility. Capital improvement funds may not be used for program equipment or routine maintenance. Statutes require that capital improvements be funded before any new capital development project can be approved. Since funding for capital improvement is based on the replacement value of existing infrastructures, funding usually grows each year to reflect new buildings and construction costs. Facility condition assessments estimate \$250,000,000 in immediate needs. The analyst recommends another one-time reduction of \$5,200,000 for FY09 to reach the 7.5% budget reduction goal. A statutory change will be necessary prior to making this cut. This reduction would drop funding to 0.83% of the replacement value of existing buildings. Since the Legislature has already authorized capital developments in FY09, this action would place the Legislature out of statutory compliance without a change. For the 15% reduction in FY10 the analyst recommends an ongoing reduction of \$10,175,700.

Rep. Hunsaker, asked if capital improvements could be a candidate for bonding?

Mr. Allred, said it has been done in the past and can be done again.

Rep. Hunsaker, stated that if we are talking about stimulating the economy and finding projects that are shovel ready then Capitol improvement projects is a good candidate.

#### 20. Internal Service Funds (ISF)

Mr. Amon referred back to the main spread sheet he provided. Internal Service Funds provide an alternative source of funding to help mitigate cuts that would otherwise need to be made to the Debt Service Funds. Mr. Allred referred to the Contingency Reserve Fund as a one time source of funding. A certain amount is appropriated building contingency amounting to about \$2,000,000 that the Legislature could use as one time use.

Sen. Niederhauser, asked if the \$3,000,000 Working for Utah Energy Savings would be a one time or ongoing income?

Mr. Amon, explained that as a pilot program it is supposedly a one time. However, if the initiative kept going the it would be ongoing.

Mr. Amon handed out The Internal Service brief. The Internal Service Funds (ISF) employ business practices to provide a service or product for other state and governmental agencies that can be centrally coordinated. These fund descriptions include Facilities, Construction, and Management (DFCM) ISF, Fleet Operations ISF, Risk Management (ISF), Human Resource Management ISF, Technology Services ISF, Office of State Debt Collections (OSDC). There is approximately a \$900,000 savings in General Fund, \$180,000 increase to Education Fund for a net savings of \$ 700,000 to State Funds. One other possible area of savings would be the DTS Data Center Consolidation. In most cases the capacities of the servers are not being fully utilized. DTS projects that consolidating all the server state-wide onto one data center would result in a savings between \$4,000,000 and \$6,000,000.

If an ISF collects more or less revenue than is necessary to pay operating expenses for a given year, the profit or



loss stays in the fund as retained earnings; which should then be used in the next year to reduce the service rates. Reductions to retained earnings will net approximately 75% saving to the General Fund after rebates. The analyst recommends reducing the retained earnings of the Fleet fuel Network by \$3,000,000 as part of these years budget reductions. The analyst also recommends that the Legislature reduce retained earnings and additional \$3,500,000 million in the Liability Program and additional \$2,500,000 million in the Workers Compensation Program. In FY09 the Office of State Debt Collections will have a balance of \$950,000. The analyst recommends reducing the balance by \$750,000.

Rep. Hunsaker asked what will affect on the operations of each one these be by tapping the retainers?

Ms. Hood stated that in general the retained earnings will help operations but however, there is a federal restriction that retained earnings can help with operations up to 60 days.

21. Adjourn

**MOTION:** Rep. Clark moves to adjourn. The motion passed unanimously with Rep. Dee and Rep. Froerer absent at the time of the voting

The meeting was adjourned at 4:40 p.m. by Co-Chair Neiderhauser

The minutes were reported by Allison Volk, Secretary.

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Sen. Wayne L. Niederhauser, Co-Chair

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Rep. Stephen D. Clark, Co-Chair